J.Harris & Sons, Limited

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annual report 1975

FINANCIAL HIGHLIGHTS

	1975	1974
Revenue	**$55.2m**	$40.9m
Net Profits	**$4,866,382**	$5,839,082
Per Share	**$1.50**	$2.12
Cash Flow from Operations	**$5,780,950**	$6,271,135
Per Share	**$1.78**	$2.28
Working Capital	**$8,971,362**	$9,884,518
Shareholders Equity	**$15,204,040**	$10,904,128
Per Share	**$4.67**	$3.97
Average Shares Outstanding	**3,253,375**	2,749,877

OFFICERS
Milton E. Harris *Chairman & President*
James Wilson *Vice President Marketing*
Glenn Riddell *Vice President Manufacturing*
Bruce Timmerman, *C.A. Vice President Finance*
Lorie Waisberg *Secretary-Treasurer*

DIRECTORS
Gordon Atlin, Q.C. *Toronto, Ontario*
Geoffrey J. Jackson *Toronto, Ontario*
C.H. Franklin *Toronto, Ontario*
Joseph Godfrey *Toronto, Ontario*
Milton E. Harris *Toronto, Ontario*
Donald Resnick, C.A. *Toronto, Ontario*
Barrie Rose, C.A. *Toronto, Ontario*

AUDITORS Clarkson Gordon & Co.

SOLICITORS Goodman and Goodman

REGISTRAR AND TRANSFER AGENT
Guaranty Trust Company of Canada

BANKER Royal Bank of Canada

HEAD OFFICE 1139 Shaw Street, Toronto

Plants, Divisions and Subsidiary Companies

Fabrication and Supply-Reinforcing Steel — J. Harris & Sons, Limited

Fabrication, Supply and Erection-Structural Steel .... Frankel Structural Steel Limited

Saunders Form Hardware and Industrial Wire Products ...... Laurel Steel Products Limited

Concrete Post-tensioning and Reinforcing Steel Erection .... VSL Canada Ltd.
VSL Ltee.

Construction Equipment Rentals .... Frankel Steel Construction Services Limited

Corporate Development .... J. Harris & Sons Developments (Middlesex) Limited

FRONT COVER
Massive steel columns erected by Frankel Structural Steel at new Stelco Plant in Nanticoke, Ontario

Offices and/or plants are located in Toronto, Milton, Stoney Creek (Hamilton), Windsor, London, Thunder Bay Halifax, Nova Scotia, and in St. John's, Newfoundland.

REPORT TO SHAREHOLDERS

I am proud to be able to report to you that your company had another outstanding year in 1975. Shareholders Equity increased to $15.2 million and, although we virtually eliminated our long-term debt by paying off the $5 million term bank loan, our working capital position remains very strong at $9 million.

The original Harris group of companies and the new Frankel group both made excellent contributions to 1975 earnings. I am particularly proud of the performance of the Frankel group which was purchased in December of 1974. Frankel achieved substantially higher profits than planned and amply justified the acquisition.

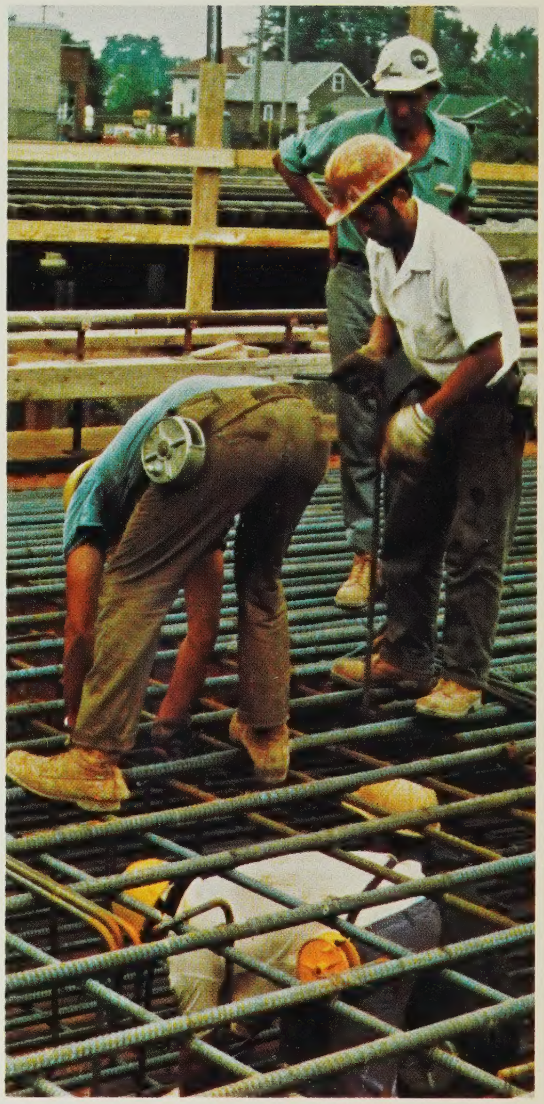
In particular, we could not expect to duplicate 1974's $2 million "phantom" inventory profit which was the product of uncontrolled inflation. Inventory profits were not a significant factor in 1975 results.

I have stated publicly many times that 1974 was an unusual profit year in the steel distribution industry, and could not be repeated on the basis of the company as it then was.

In the first half of 1974, a combination of surging steel consumption and strong inventory accumulation caused a severe shortage of supply, but the onset of the recession began to reverse this process by 1974's fourth quarter.

Throughout the whole of 1975 lessened steel consumption and reduction of inventories created a substantial excess of supply. This created a very competitive selling environment in 1975.

Nevertheless, we have been able to come closer to equalling 1974 results in both profits and cash flow than any other major steel distributor in Canada.



1976 Bookings Are Strong

At present, the Frankel companies are strongly booked for 1976 so that we have been able to be selective in choosing work for this year. The Harris Companies have a large backlog, but at very competitive prices in most, but not all, of our product lines. We are anticipating stronger steel markets by the third quarter. However, it appears that capital spending will lag further behind this recovery than in any since the war. Lower corporate profits in the recession, sharply higher construction costs, very large deficits at the public level, and higher interest costs, have all combined to defer many large construction projects, particularly in the crucial energy field.

The effect of these deferments is to build up a large backlog of heavy construction projects which will once again exceed our industry's capacity to supply when they are all brought on the market at one time, as they certainly will be before the end of this decade.

Our company has continued to invest in developing a broadened earnings base. You will note that we have added almost $2.9 million in fixed assets in the year.

The largest part of the fixed asset investment was made in a structural steel fabricating plant and thirty acres of industrial land in Milton, Ontario. This additional capacity was required to service our present large backlog of work. It will be developed into the new home for the Frankel group in the next three to five years and will replace the constricted 10.2 acre plant which Frankel owns in the centre of Toronto, We have made a further capital commitment to the Milton plant in 1976.

We have also made a large capital commitment to a new structural product which we expect to have in the market before the end of 1976. This product has been developed by a team comprising the outstanding engineering, manufacturing and marketing talents of the combined Harris and Frankel groups and we are presently applying for patents.

Strikes Affected Earnings

Our company suffered some strikes in the field last year. In addition, we withstood a strike in our main Stoney Creek reinforcing plant. This strike had a significant effect on fourth quarter profits. The company did not change its original offer and the employees accepted after a six week strike. This settlement still awaits approval from the Anti-Inflation Board.

Although most of our trade agreements do not expire this year, several other trades expire in 1976 in areas where we are active and there is no doubt that negotiations will test the whole Prices and Incomes Guideline Program. It is our belief that new settlements allowed by the A.I.B. must be set at a much lower rate of increase than was the pattern in construction last year if the program is to have any effect in controlling inflation.

Your company has more than 1,000 employees and is therefore part of the total Prices and Incomes Restraint Program. It is too early to assess the total effect on our prices, margins and profits, as well as the amount of administrative and management energy that must be diverted to servicing the very onerous reporting requirements.

Milton Harris, President and Chairman, on the right, confers with Geoffrey J. Jackson, President of Frankel Steel, Bruce Timmerman, Vice President of Finance and, standing, Jim Wilson, Vice President of Marketing for J. Harris & Sons.

A.I.B. — Concerns and Objectives

A major concern of the construction industry is the dampening effect that the regulations could have on investment intentions. If investment in new plant and equipment is reduced now, the resulting shortages in the future will only fuel new rounds of inflation. So far the government has not been able to resolve this problem, but it is our hope that the A.I.B. rulings will be such as to allow a reasonable return on investment in new plant and technology.

Nevertheless, I am fully in accord with the objectives of the Government's Anti-Inflation Program. Double-digit inflation makes saving and pension planning futile. Because it causes the individual to engage in a wild scramble to stay ahead, it is destructive of all the social values we cherish in our country. Most tragic of all — the strong are able to expand their share at the expense of the weak.

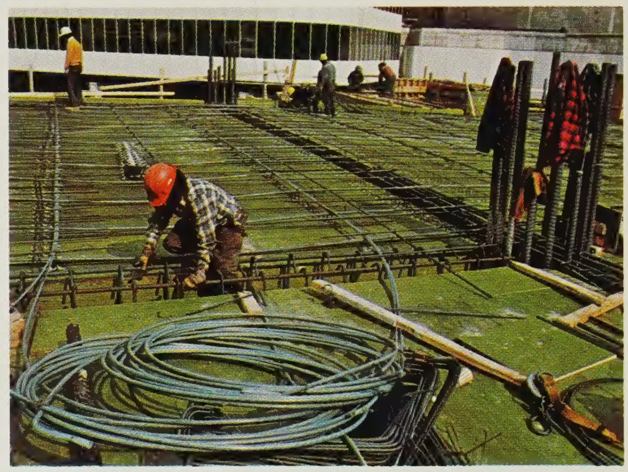
All in all 1976 will be a year which will challenge our Management to its utmost. Because of our steadily increasing diversification, and despite the very competitive conditions throughout the construction industry, we expect to have a very good profit year in 1976.

Your company is now poised for a further strong move forward. We have no significant term debt and have considerable funds available to leverage our strong equity position. In addition, we have built a very effective finance and administration group. We are, therefore, very actively looking for a major acquisition to continue our policy of diversification and enlargement of our earnings base.

Once again, we are the leader in our industry in Return on Sales and Investment. This is the result of the outstanding ability and effort of our Management Team and Staff and on behalf of the Board and all of the shareholders, I would like to thank them all.

M.E. Harris

M.E. Harris
President and Chief Executive Officer.




RESTORATIO

PROJECTS

It's not unusual to have J. Harris and Frankel both working on the same project — under separate contracts to do different things.

At Eaton Centre in Toronto, for example, Harris is supplying reinforcing bars for the parking decks now underway. At this same site is the high-rise office tower where all the structural steel work was done by Frankel.

Both companies specialize in major building projects such as the CN Tower, Lloyd D. Jackson Square in Hamilton, the CNE Grandstand renovation, Bruce Hydro Station, Stelco-Nanticoke and First Canada Place.

Currently, in addition to projects throughout Ontario, both J. Harris and Frankel have major programs underway in the Maritimes. Frankel is the structural steel contractor for the Thermal Generating Station addition at Dalhousie, N.B. J. Harris is the sub contractor for reinforced concrete at the new Pt. Lepreau Nuclear Generating Station at Saint John.

At any given time each of the J. Harris companies will have 50 or more separate contracts underway in their particular supply-service areas.

These contracts will include field application work as well as fabrication of material in the J. Harris or Frankel plants. Individual projects will range from new office towers in crowded downtown centres to new plant additions in remote areas such as the Kimberly-Clark program now in progress at Terrace Bay, Ontario.

With Frankel there is also a restoration side to the company's activities. A typical program related to maintaining the past (rather than building for the future) involves a complete interior transformation of the old Courthouse Building at Cobourg, Ont.

The revered Cobourg landmark is undergoing a complete facelifting, but on the inside only. It's Frankel's role to supply custom-processed steel beams, purlins and joists for walls, stairways and ceilings.

Typical projects:
Far left: the Parking Complex at Lloyd D. Jackson Square in Hamilton
Middle: the new Press Centre at the CNE Grandstand; the Eaton Centre; restoration of the Cobourg Courthouse
Right: J. Harris and Frankel have continuing work at Stelco — Nanticoke.

J. HARRIS & SONS, LIMITED
(Incorporated under the laws of Ontario)
and its subsidiary companies

CONSOLIDATED BALANCE SHEET

DECEMBER 31, 1975
(with comparative figures at December 31, 1974)

ASSETS

	1975	1974
Current assets:		
Short-term notes		$ 639,494
Accounts receivable	$10,279,412	8,494,558
Due from joint ventures (note 1)	1,397,952	1,285,372
Inventories, valued at the lower of cost or net realizable value (note 2)	9,632,858	10,516,796
Estimated value of jobs in progress less progress billings (note 1)	900,085	2,791,215
Prepaid expenses and deposits	49,140	73,047
Total current assets	22,259,447	23,800,482
Investments:		
Shares in other companies, at cost (estimated market value 1975 — $210,000; 1974 — $168,000)	44,259	28,500
Fixed assets, at cost:		
Land	2,105,941	2,689,121
Buildings	2,419,671	1,315,138
Machinery and equipment	7,966,462	6,520,950
	12,492,074	10,525,209
Less accumulated depreciation	5,630,823	4,948,947
	6,861,251	5,576,262
Other assets:		
Goodwill, at cost		50,000
	$29,164,957	$29,455,244

AUDITORS' REPORT

To the Shareholders of J. Harris & Sons, Limited:

We have examined the consolidated balance sheet of J. Harris & Sons, Limited and its subsidiaries as at December 31, 1975 and the consolidated statements of income, retained earnings and changes in financial position for the year ended on that date. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion the accompanying consolidated financial statements present fairly the financial position of the companies as at December 31, 1975, the results of their operations and the changes in their financial position for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Toronto, Canada,
March 26, 1976.

Clarkson Gordon & Co.
Chartered Accountants

LIABILITIES

	1975	1974
Current liabilities:		
Bank indebtedness (secured by inventories and accounts receivable)	$ 4,621,695	$ 628,994
Accounts payable and accrued charges	5,089,063	5,827,190
Income and other taxes payable	2,537,909	4,662,193
Deferred income taxes — current portion	1,036,700	1,930,000
Long-term debt due within one year	2,718	867,587
Total current liabilities	13,288,085	13,915,964
Deferred income taxes	608,519	347,779
Long-term debt (note 3)	67,031	5,154,960
Less amounts due within one year included with current liabilities	2,718	867,587
	64,313	4,287,373
Shareholders' equity (note 4):		
Capital —		
Authorized:		
6,000,000 shares without par value		
Issued:		
3,253,375 shares	2,445,232	2,445,232
Retained earnings	12,758,808	8,458,896
	15,204,040	10,904,128
	$29,164,957	$29,455,244

On behalf of the Board:

Director

Director

(See attached notes)

J. HARRIS & SONS, LIMITED
and its subsidiary companies

CONSOLIDATED STATEMENT OF INCOME
YEAR ENDED DECEMBER 31, 1975
(with comparative figures for 1974)

	1975	1974
Sales	$55,215,779	$40,870,665
Income before the following	$ 9,885,141	$11,086,228
Deduct:		
Depreciation	697,541	296,253
Interest on long-term debt	143,258	80,862
Other interest expense	307,173	90,031
	1,147,972	467,146
Income before income taxes and extraordinary items	8,737,169	10,619,082
Income taxes	3,914,500	4,780,000
Income before extraordinary items	4,822,669	5,839,082
Extraordinary items:		
Gain on sale of land net of applicable taxes	93,713	
Goodwill written off	50,000	
	43,713	
Net income for the year	$ 4,866,382	$ 5,839,082
Earnings per share (note):		
Income before extraordinary items	$1.48	$2.12
Net income for the year	$1.50	$2.12

NOTE: The earnings per share are based upon the weighted average number of shares outstanding during the year. On December 5, 1974 539, 725 shares were issued as partial consideration for the acquisition of the Frankel Group of companies. The exercise of the options referred to in note 4 would not result in any material dilution of earnings per share.

(See attached notes)

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

	1975	1974
Source of funds:		
Income before extraordinary items	$4,822,669	$5,839,082
Charges to operations not an outlay of funds —		
Depreciation	697,541	296,253
Deferred income tax	260,740	135,800
Funds derived from operations	5,780,950	6,271,135
Proceeds from sale of land net of applicable taxes	914,874	
Proceeds from issue of shares		10,050
Proceeds of term loan (net of amounts repaid during the year)		2,977,428
	6,695,824	9,258,613
Application of funds:		
Cost of acquisition of subsidiary companies		5,760,530
Less value of common shares issued as partial consideration		2,023,969
		3,736,561
Additions to fixed assets	2,803,691	775,082
Dividends and special taxes related thereto	566,470	336,154
Reduction of long-term debt — non-current portion	4,223,060	532,400
Purchase of shares in another company	15,759	
	7,608,980	5,380,197
(Decrease) increase in working capital	(913,156)	3,878,416
Working capital, beginning of year	9,884,518	2,766,367
	8,971,362	6,644,783
Working capital of subsidiaries at date of acquisition		3,239,735
Working capital, end of year	$8,971,362	$9,884,518

(See attached notes)

CONSOLIDATED STATEMENT OF RETAINED EARNINGS

	1975	1974
Retained earnings, beginning of year	$ 8,458,896	$2,955,968
Net income for the year	4,866,382	5,839,082
	13,325,278	8,795,050
Deduct:		
Tax deferred dividends declared during year	520,540	285,743
Special taxes paid by company relating to tax deferred dividends	45,930	50,411
	566,470	336,154
Retained earnings, end of year	$12,758,808	$8,458,896

(See attached notes)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. **Accounting policies**

Basis of consolidation —

The consolidated financial statements include the accounts of the company and all subsidiaries. Investments in joint ventures are carried at cost plus the companies' share of undistributed profits to date.

Uncompleted contracts —

Estimated value of jobs in progress represent contracts in progress valued on the percentage of completion basis. Under the percentage of completion method, revenue is acrued as the work is performed, and provision is made for total anticipated losses where the estimate of total costs on a contract indicates a loss. Although the company uses its best engineering estimates, the final results of jobs in progress will necessarily be dependent upon future costs and revenues.

Fixed assets —

The company depreciates its buildings, machinery and equipment on a straight-line basis and its mobile equipment on a declining balance basis at the following rates:

Buildings	10%
Machinery and equipment	10%
Mobile equipment	30%

Income taxes —

The company follows the income tax allocation method of accounting. The deferred income taxes included in current liabilities relate to jobs in progress, investment in joint ventures and holdbacks receivable. Non-current deferred income taxes relate to fixed assets.

2. **Inventories**

Inventories consist of the following:

	1975	1974
Raw materials	$9,093,451	$10,013,132
Work in progress	110,122	84,003
Finished goods	429,285	419,661
	$9,632,858	$10,516,796

3. **Long-term debt**

An analysis of long-term debt is as follows:

	1975	1974
Term bank loans (collateralized by demand notes and secured by accounts receivable and certain fixed assets) —		
Due 1981, $500,000 repayable annually		$3,500,000
Due 1980, $360,000 repayable annually		1,540,000
6-1/2% - 9% mortgages due in annual amounts to 1988	$67,031	114,960
	67,031	5,154,960
Less amounts due within one year included with current liabilities	2,718	867,587
	$64,313	$4,287,373

4. **Capital stock and dividends**

Options are outstanding at December 31, 1975 for 24,000 shares at $1.00 per share which may be exercised to June 30, 1979 at the rate of 6,000 shares per year.

It has been the policy of the company to pay dividends which are deferred for income tax purposes in the hands of the shareholders. As at December 31, 1975 approximately $3,900,000 of consolidated retained earnings is available for the payment of tax deferred dividends in future years.

5. **Remuneration of directors and senior officers**

Remuneration of directors and senior officers of the company as defined by The Ontario Business Corporations Act (1970) including profit sharing bonuses, amounted to $379,986 (including $7,500 as directors' fees) in 1975 and $671,350 (including $7,750 as directors fees) in 1974.

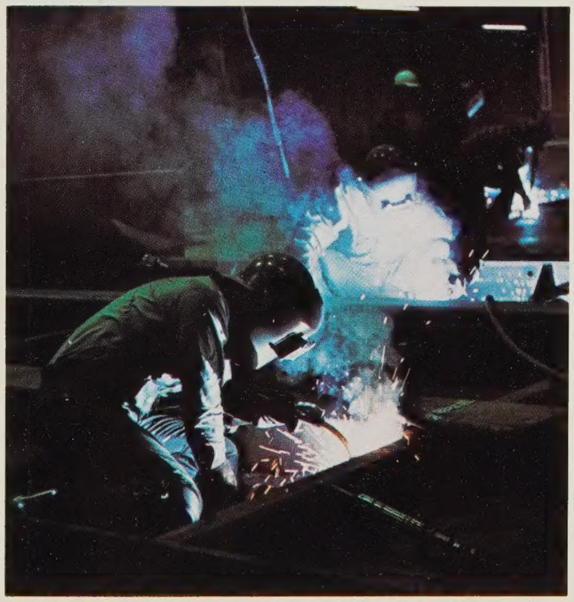
6. **Anti-Inflation Program**

Effective October 14, 1975 the federal government passed the Anti-Inflation Act and subsequently issued Regulations which are presently scheduled to be in force until December 31, 1978. Under this legislation the company is subject to mandatory compliance with controls on prices, profit margins, employee compensation and shareholder dividends. The effects on the company of the Regulations on prices, profit margins and employee compensation are not yet clear owing to uncertainties as to interpretation and the need to develop appropriate data from the company's records.

SKILLS AND SERVICES

Separately — and together — J. Harris and Sons and Frankel Steel Construction offer a broad range of skills and services within the construction industry.

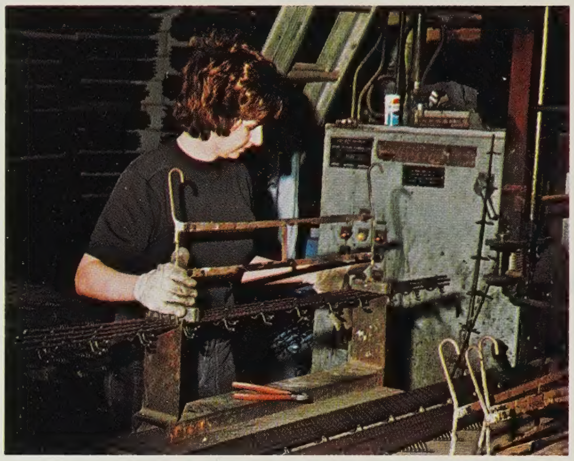
Prior to their amalgamation in late 1974 both companies operated successfully, and profitably, in their respective fields. Now they work as a team in offering a broader range of services.



With a history dating back to 1886, Frankel Steel has developed the necessary technical skills to become one of the largest structural steel fabricators in Canada.

Frankel specializes in "shaping steel" — that is, it takes raw material as delivered from the steel mills, and workmen custom-process this basic product to meet specific requirements of customers.

There is almost no size limit in Frankel's fabrication. For Stelco-Nanticoke, for example, Frankel fabricated 50 ton column sections which were spliced together on site to create mammoth building columns — each weighing 450 tons.



Frankel now has two fabrication plants — one in Toronto, with 40,000 ton capacity, and a new 60,000 square foot plant in Milton, Ontario, with additional capability of 15,000 tons per annum.

J. Harris and Sons, based in Stoney Creek, Ont., specializes in fabrication and installation of reinforcing steel rods (rebars) which are buried in concrete at major installation sites.

Harris has developed its special expertise over a history dating back to 1888. At the same Stelco-Nanticoke site where Frankel fabricated 450 ton steel columns, Harris carried out a special assignment to create a giant wharf that juts out into Lake Erie.

Here, Harris had to produce supporting light cribs made of reinforced concrete — each measuring 100 by 65 feet, each to be submerged in 65 feet of water. As concrete was poured for these cribs they were systematically lowered into the lake — an operation which called for a combination of technical know-how and timing.

VSL Canada Ltd., a Harris subsidiary, designs and installs post tensioning systems which have been successfully applied in such commercial applications as the CN Tower in Toronto and the Eaton Centre.

In recent years another Harris subsidiary, Laurel Steel Products Limited, has become increasingly involved in the manufacture of industrial wire products. Many new lines have been successfully introduced within this division.

J. HARRIS & SONS, LIMITED

FINANCIAL SUMMARY

	1975	1974	1973	1972	1971
Revenue	$55.2m	$40.9m	20.4m	15.8m	14.6m
Profits	$4.9m	$5.8m	1.3m	282,968	234,822
Per Share (A)	$1.50	$2.12	49¢	10.7¢	9.0¢
Funds Provided	$5.8m	$6.3m	1.6m	402,993	380,996
Per Share (A)	$1.78	$2.28	60¢	15.2¢	14.5¢
Dividends (A)	16¢	10.2¢	4¢	3.3¢	—
Effective Tax Rate (including deferred)	45%	45%	46%	48%	46%
Financial:					
Assets	$29.2m	$29.5m	8.3m	6.04m	6.2m
Long-term debt	$67,031	$5,154,960	697,368	117,689	154,618
Current Assets	$22,259,447	$23,800,482	6,894,021	4,983,634	5,191,477
Current Liabilities	$13,288,085	$13,915,964	4,127,654	3,729,239	4,021,306
Working Capital	$8,971,362	$9,884,518	2,766,367	1,254,395	1,170,171
Current Ratio	1.7:1	1.7:1	1.7:1	1.3:1	1.3:1
% Inventory to Current Assets	43%	44%	34%	22%	33%
Capitalization:					
Common Shares	$2,445,232	$2,445,232	411,214	377,451	348,951
Retained earnings	$12,758,808	$8,458,896	2,955,968	1,729,771	1,550,764
Shareholders Equity	$15,204,040	$10,904,128	3,367,182	2,107,222	1,889,715
Per Share (A)	$4.67	$3.97	1.25	80¢	73¢

A — Based on average number of shares outstanding after 3 for 1 split in 1974.

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